

Message Text

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PAGE 01 RIO DE 03688 291956Z

41

ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 SP-02 USIA-06 AID-05 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 IGA-02 ITC-01 INT-05 /087 W

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R 291520Z SEP 76

FM AMCONSUL RIO DE JANEIRO

TO SECSTATE WASHDC 4220

INFO AMEMBASSY BRASILIA

AMCONSUL SAO PAULO

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PASS EXIMBANK, USDOC FOR MEPD

EO 11652: NA

TAGS: BENC, BR

SUBJ: CSN STAGE III EXPANSION

REF: RIO DE JANEIRO 3437, RIO DE JANEIRO 3669

SUMMARY. CSN FINANCIAL DIRECTOR REVIEWED FOR EXIM OFFICIALS STATUS OF CSN EXPANSION PROGRAM. STAGE III EXPANSION IS NOW UNDERGOING INTENSIVE REVIEW BY OUTSIDE CONSULTANTS. FINAL RE-APPRAISAL SHOULD BE FINISHED BY LATE NOVEMBER. END SUMMARY

1. EXIMBANK'S CRAFTON AND ELLIS AND CONGEN OFFICER MET WITH CSN FINANCIAL DIRECTOR MOREIRA GALVAO ON SEPT 27 TO DISCUSS STATUS OF CSN EXPANSION PLAN. GALVAO ADMITTED THAT WORLD BANK CRITICISMS (RIO 3437) OF CSN OPERATIONS WERE ACCURATE. HE ADDED THAT CSN MANAGEMENT HAD BEEN AWARE OF THESE PROBLEMS AND HAD, IN FACT, REPORTED THEM TO THE WORLD BANK TEAM THAT WAS IN BRAZIL LAST MAY. ACCORDING TO GALVAO, THE WORLD BANK REPORT DID NOT CONTAIN ANY SURPRISES AS FAR AS GOB STEL POLICY-MAKERS WERE CONCERNED.

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PAGE 02 RIO DE 03688 291956Z

CSN WAS ALREADY MAKING THE NECESSARY CHANGES WHEN THE WORLD BANK

SENT ITS REPORT TO THE GOB. REFERRING TO THE DIRECTORS WHO WERE REPLACED, GALVAO OBSERVED THAT THEIR STAFFS HAD BECOME OVERWHELMED BY THE EXPANSION PROGRAM. IN SUCH CASES, HE ADDED, THE CHIEFS ARE HELD RESPONSIBLE.

2. GALVAO REPORTED THAT STAGE II CSN EXPANSION IS 90 PERCENT COMPLETE. ALL THE EQUIPMENT HAS BEEN PURCHASED AND IS NOW IN THE FINAL SHAKE-DOWN STAGE. HE NOTED THAT THERE WILL BE MORE DELAYS BUT THIS IS TO BE EXPECTED. AS AN EXAMPLE, GALVAO MENTIONED THE BREAKDOWN OF THE NEW OXYGEN PLANT LAST WEEK. THE US MANUFACTURER SENT A REPRESENTATIVE WHO ARRANGED TO HAVE PART OF THE MACHINERY FLOWN BACK TO THE US TO BE REPAIRED. CSN WAS ABLE TO MAINTAIN PRODUCTION BY BRINGING BACK ON LINE THE OLD OXYGEN PLANT. GALVAO SAID THERE MAY BE SEVERAL OF THESE MINOR INTERRUPTIONS BEFORE STAGE II IS COMPLETED.

3. GALVAO STATED THAT STAGE III IS BEING REAPPRAISED BY OUTSIDE CONSULTANTS FROM US STEEL. THIS APPRAISAL IS NOW 60-70 PERCENT COMPLETE. GALVAO DOES NOT EXPECT THE FINAL REPORT TO BE READY UNTIL LATE NOVEMBER. THE REAPPRAISAL WILL INCLUDE AN EXAMINATION OF THE BIDS ALREADY ACCEPTED FOR STAGE III. GALVAO DOES NOT ANTICIPATE CHANGES TO BE MADE IN THESE ACCEPTANCES BUT DID NOT COMPLETELY RULE OUT THE POSSIBILITY. UPON RECEIPT OF THE COMPLETED RE-APPRAISAL THE GOB WILL DECIDE WHAT REVISIONS SHOULD BE IMPLEMENTED. THIS DECISION WILL BE MADE ON TECHNICAL AND POLITICAL GROUNDS. GALVAO THOUGHT THE GOB WOULD ACCEPT THE REPORT WITHOUT MAKING SIGNIFICANT REVISIONS.

4. GALVAO WAS ENCOURAGED BY THE SEPTEMBER 1 PRICE INCREASES GRANTED BY THE CIP (THE GOB PRICE CONTROL BOARD). THIS ACTION ALLOWED FOR AN INCREASE OF 18 PERCENT IN ROLLED STEEL WITH SMALLER INCREASE FOR OTHER STEEL PRODUCTS. SINCE 47 PERCENT OF CSN' PRODUCTION IS ROLLED STEEL THIS NEW INCREASE WILL BE ESPECIALLY HELPFUL. (COMMENT: THE IBRD REPORT HAD CRITICIZED THE PRICE SITUATION). GALVAO NOTED THAT THIS WAS THE FIRST TIME THAT THE GOB HAD DIFFERENTIATED STEEL PRODUCT PRICE INCREASES. GALVAO WAS HOPEFUL THAT FUTURE GOB PRICE POLICY WOULD BE MORE RESPONSIVE TO CSN'S NEEDS.

5. REGARDING COSIPA AND USIMINAS STEEL EXPANSION, GALVAO OBSERVED LIMITED OFFICIAL USE

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PAGE 03 RIO DE 03688 291956Z

THAT AS FAR AS HE KNEW THEIR PROGRAMS WERE IN BETTER SHAPE THAN CSN'S. HE NOTED THAT USIMINAS WAS BUILT FROM SCRATCH AND ITS NEXT STAGE CAN AVOID THE PROBLEMS CSN HAD IN EXPANDING AN OPERATING STEEL MILL. GALVAO WAS NOT AS CONFIDENT ABOUT THE COSIPA EXPANSION BUT POINTED OUT THAT STAGE III CONTRACTS WERE BEING SIGNED. GALVAO CONCLUDED THAT COSIPA STAGE III EXPANSION WOULD PROCEED AS PLANNED, BUT DID NOT RULE OUT A RE-APPRAISAL IN THE NEAR FUTURE.

6. COMMENT: GALVAO WAS QUITE CANDID IN HIS EVALUATION OF CSN'S EXPANSION PROBLEMS. WHETHER OR NOT THE NEW CSN STAGE III EXPANSION PLAN REFLECTS THIS REALISM REMAINS TO BE SEEN. INTERESTINGLY, THE NEW PLAN WILL NOT BECOME PUBLIC UNTIL AFTER THE BRAZILIAN MUNICIPAL ELECTIONS NOVEMBER 15. THIS TIMING INDICATES THAT THE GOB MAY BE WILLING TO MAKE THE CHANGES NECESSARY FOR A VIABLE (I.E. ACCEPTABLE TO THE WORLD BANK) STAGE III CSN EXPANSION PLAN.

7. EMBASSY CONCURS IN THIS MESSAGE.
DEXTER

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